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Retirement Millionaire

How the U.S. Government Will Guarantee
You a Rich Retirement



Stansberry & Associates
Investment Research

How the U.S. Government Will Guarantee You a Rich Retirement

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I've spent my entire life waiting for this moment.

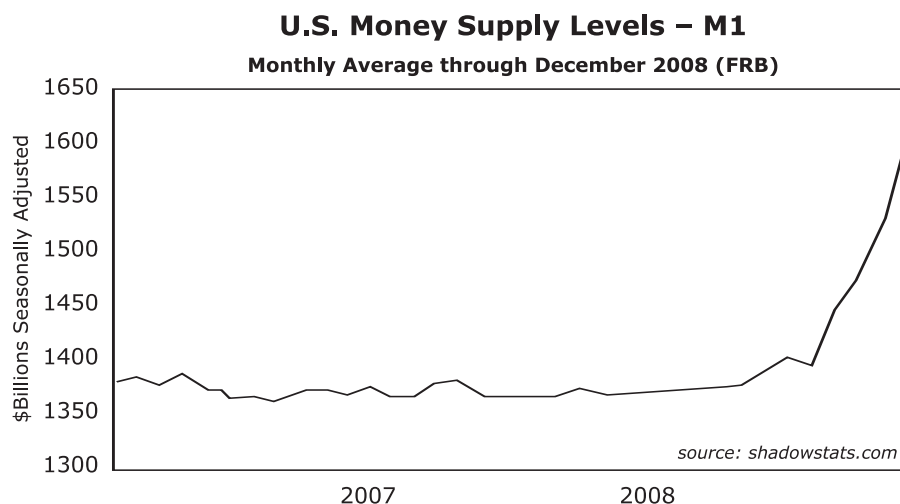
I am absolutely convinced 2009 will be the most exciting time of your investing career. But I'd be lying to you if I didn't tell you I am a little afraid.

Most people, friends and family included, have seen their portfolios drop by 20%-60% over the past year. Many of you have watched as homes you counted on for a nest egg plummeted in price the past two years. And as if that wasn't enough, you're seeing everyone and their brother head to Washington with a hand open looking for a bailout.

George Orwell, author of the classic novel *1984*, said: "Political language... is designed to make lies sound truthful and murder respectable, and give the appearance of solidity to pure wind." Current political language is no exception.

Politicians in D.C., new and old, want you to believe throwing around taxpayer dollars will revive the economy. I don't trust their wisdom, and I doubt they have much common sense. I mean, these same people got us into the mess in the first place. And their same old friends running Wall Street's greed machine are getting the bailouts.

Although I am skeptical of the recovery plans, an awfully large amount of money is being thrown toward the problem. As the graph shows, one measure of the bailout is the growth of the supply of money. We can see how it has exploded in the past few months.



What this means is the amount of money in checking and savings accounts plus the amount of currency in general circulation is growing rapidly. And usually as the money supply increases, inflation is just around the corner. (Purists would argue that an increase in money supply *is* technically inflation, but we can take that up another time.) And so, we have an unusual time in our country's history – stocks and housing prices collapsing, increasing unemployment, and exploding money supply.

If the exploding money supply does lead to price inflation as I think, I've uncovered two ways to help you take advantage of the opportunities. In this report, I'll share two speculative ideas to take advantage of what the U.S. Treasury is doing to us right now. You'll learn how to earn at least 15% annual income with the world's best crisis insurance... plus, you'll learn a way to turn the tables on the government's artificial low rates in the fixed income markets.

Let's first review the best crisis insurance we can buy, then we'll turn to the bond markets.

What's happened in the investing world is people are so afraid *they are essentially stuffing money in their mattresses*. Interest rates in U.S. government T-bills have dropped to their lowest level ever... six-month bills now offer a measly 0.35%. At that rate, it would take you more than 100 years to double your money. Don't worry though. With rates this low and the printing of money, as measured by exploding money supply, there's a huge risk the dollar loses its value quickly. Why?

The reality of inflation caused by the flooding of the world with dollars can easily lead to the destruction of the dollar as a world currency and to the increase of interest rates in the U.S. Essentially, the Federal Reserve is printing money and that bodes ill for our currency.

Don't get me wrong, for most retirees, the idea of speculation on currency collapse and inflation might seem wrong. But I would argue that as long as you maintain small position sizes and stop losses, the risk-to-reward ratio is in your favor. Here are my rules:

- Don't put more than 4% of your total portfolio in any one position.
- Set a 25% trailing stop on your positions. This is a predetermined price at which you will sell an investment if it declines in price. No if, ands, or buts... you sell it and keep your capital safe. In other words, if the stock falls 20%-25% below the price you paid, get out. No matter what. Similarly, if your stock begins to go higher, you can raise your "stop price" accordingly (this is called a "trailing stop"). Once the investment moves high enough, you're nearly guaranteed to lock in profits.

A couple more things: This report is the most speculative and the most complicated report I've written. But don't worry if you don't understand the ins and outs of the investments and don't worry if you don't want to use options in your portfolio. There will be other, simpler things we will do in *Retirement Millionaire* this next year... I only share this with you in case you want some more advanced ideas about making money safely.

Both of my ideas here involve "selling covered calls," which actually lowers your risk and provides some income to your portfolio as well. The first idea I'll tell you about allows you to own gold, have someone else store it for you, and earn income against the gold in storage. The second idea is a way of selling U.S. Treasury securities without owning them – it's a bet that interest rates will be higher in the future. But like the gold play, I've found a way for you to earn income along the way with call options. If you don't

know anything about covered calls, I encourage you to turn to the other special report called *How to Double Your Wealth*, where I detail this strategy.

Here are the two opportunities, courtesy of the U.S. Treasury:

No. 1 – A Chaos Hedge to Triple Your Savings This Year...

Gold is one of the few things that holds its value in tough times. Throughout history, gold has been a hedge against calamity and a store of value during the initial blows of inflation. Although many assets have recently suffered from price deflation, the Federal Reserve is doing everything in its power to cause inflation. Worse, Wall Street has made a debacle of asset values and each week brings a new collapse.

Quite simply, if inflation roars back from increasing money supply, the big problem is things you buy will cost more... In other words, your dollar will lose value. So unless you hold something that stores value, you will become poorer. That's why owning gold during turbulent times, like now, makes sense. The real danger for inflation began when the Fed turned on the dollar spigot. It all but announced it will print limitless amounts of paper. I guess Bernanke was serious when he said he'd drop dollars from helicopters to stave off recession.

The result is a devalued dollar. Paper money becomes worthless in the worst case. As my colleague Steve Sjuggerud wrote in late 2008:

The obvious result is more paper dollars out there. And the next result is that a paper dollar is worthless. Consider this scenario... Say the supply of gold stays roughly the same. But say the supply of dollars out there increases dramatically. What should happen? It should cost more paper dollars to buy an ounce of gold. And that is exactly what's been happening. Gold has risen from a low around \$260 an ounce to over \$800 an ounce in the last nine years.

Chances are the Fed will be "fighting" this battle for a while. And therefore, chances are gold will be an excellent place to profit from this sure fight in the years to come.

Most of the time, gold doesn't do you much good in your portfolio. Since gold pays no interest, big investors choose to park their money in high-yield bonds, where the interest more than covers the inflation rate. But now is an interesting moment... Inflation is higher than interest rates. That's rare.

We've only seen this happen three times since we went off the gold standard. Each time, it happened, gold absolutely soared. It first happened in 1973-75, and gold tripled. Then, we saw it again in 1978-80, and gold had its steepest ascent ever, rising from \$150 to peak at \$850.

The only other time is, well, now. And once again, gold has been soaring.

How high can gold go? Our two historical examples suggest that gold simply keeps going – almost infinitely... Importantly, as long as inflation is higher than interest rates, the sky is the limit for gold.

I hope you are as convinced as I am that gold will be a great way to protect yourself from the debasement of the dollar. Unfortunately, investing in gold comes with two problems. First is where to store it... Gold is heavy, and it needs someplace safe. Some crazy “gold bugs” even bury it in their backyard. The other problem is gold doesn’t generate any income. Unless you own a well-run mine that passes on cash flow to you, gold is just a boring hedge with no income.

But my strategy solves both of these problems. Like the house in Las Vegas, we’re going to hold the gold, but sell away some of the upside to gamblers willing to spin the roulette wheel. Here’s how it works...

Today, you can buy a fund called **SPDR Gold Shares (NYSE: GLD)** that buys and owns gold bullion. By owning shares in this “trust fund,” you own actual gold and not just an index. Quite simply, you own the gold and the trust stores it for you (solving the first problem... storage). The gold is both an asset and collateral against the shares. The trust currently holds 1,127 tons of gold.

Right now, we can buy GLD shares for around \$88.

However, simply investing in this fund doesn’t fix the income problem. Gold just sits in the trust’s vaults. It still doesn’t have a cash flow, so the trust has nothing it could use as a dividend.

In order to get some income from our pile of gold, we will sell options on the shares. I know many of you may be new to trading options and find the idea uncomfortable. Rest assured, my call-option strategy is easy and safe. In fact, the upfront income this trade generates makes it *safer* than simply buying the shares. Let me explain...

Selling a call option simply gives someone else the right to buy our shares at a specific price during some agreed up period of time. In exchange for that right, the investor pays us a “premium” upfront. If the shares never trade for more than the specified “strike” price, we keep the premium and the shares. If the share price exceeds the strike price on or before the agreed on expiration date, we will sell the shares, book the capital gains up to the strike price, and still keep the premium.

Here’s how it works with GLD...

Right now, I recommend selling the **GLD September 2009 \$96 calls (GLDIR)** for \$4.50 each. That \$4.50 premium lowers the total cost of the trade to \$83.50 (\$88 for the shares minus the \$4.50 we receive in premium). Remember, each option trades in lots of 100 shares. So at a minimum, you’re spending \$8,800 on the shares and receiving \$450 for the options contract. The “96” in the option name represents the strike price... the price at which we’ve agreed to sell our shares.

These options expire on September 18, 2009 (options always expire on the third Friday of the month named in the option – in this case, “September 2009”). We have several possible outcomes when the options expire:

If the stock trades between \$88 and \$96 a share, the options will expire worthless. We will keep the \$4.50 premium and the shares. We’ll have made up to 15% on the trade. Here’s how... Let’s say the stock is at \$96 a share, we’d be up \$12.50 per share (\$96 minus our initial cost of \$83.50). That represents a maximum gain of 15%. And because we still own the stock, we can write more calls and repeat the process indefinitely.

If the stock trades for more than \$96 at expiration, we'll have to sell our shares – they'll be “called away.” Regardless of how much the shares are worth, we've agreed to sell them at \$96. So our gain remains 15% in only four months. This is an excellent hedge against the collapse of the paper dollar.

The only way to lose money on the trade is if the shares fall to less than \$83.50 on September 18 (which would be a 5.1% fall from the current price). But even in that case, we'd still own the shares and could sell more calls to recoup some of the losses.

So long as GLD is trading above \$83.50 on option-expiration day in September, you'll make money on this trade. Here's what you need to tell your broker or enter online:

Buy the SPDR Gold Shares (NYSE: GLD) and sell the GLD September \$96 calls (GLDIR) for a net investment of \$83.50.

(Or you can do what I do and enter it as an “option spread” or “buy-write trade” with your online brokerage. This way, the trades are done simultaneously.)

Remember, one option covers 100 shares of stock. This trade is a low-risk way of owning gold and hedging against calamity and collapse of the dollar. Plus, we'll earn more income than the best dividend-paying stock in the marketplace today. In the best case, we could easily earn 40% this year on our dollar hedge.

If you like the idea of using options on your gold holdings to earn extra income, then you'll love the next idea...

No. 2 – Interest Rates Are At All-Time Lows – Let's Take Advantage of It!

Interest rates simply represent the price of money. It's one of the hardest concepts in all of finance to understand.

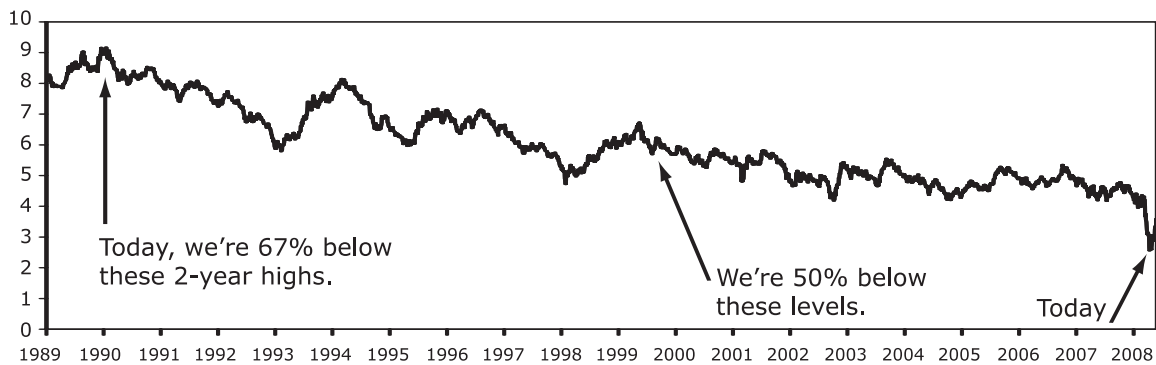
If you take the rate (or yield) on a 10-year security, this represents the amount of money you get every year as a percentage of what you originally invested. So a “bond” or “note,” as they are called, that yields 4%, will pay you \$4 every year for every \$100 you invest.

One major advantage of bonds is you are higher in the company's ownership structure in case the company gets in trouble. But a disadvantage is that you are locked into a fixed return until you get your money (principal) back at the maturity of the bond. And in our \$4 example, the return is about 4% (it can be a little higher if you earn interest on the \$4 you collect every year).

Without going into much more financial details about how prices of bond and yields are related, suffice it to say you are truly “fixed” in your return. There is usually very little potential for capital gains and very little chance to make much more of a return than the original yield. Hence the name: fixed-income securities.

The economic environment we face today presents an exciting opportunity to take advantage of all-time low yields. Look at the chart of yields on the 30-year U.S. Treasury bond below and note how yields have dropped to all-time lows the past several months.

Yields on U.S. Treasury Bonds



With yields 50% below early 2000 levels and 67% below 1990 levels, the “price” of money loaned to the U.S. Treasury may be nearing a bottom. Yields of less than 3% are so low that I just don’t think the risk justifies the reward.

So instead of locking ourselves into low yields of 2% or 3%, I’ve found a way to earn more than what the bonds pay plus make money if the yields climb back up to more realistic levels. I don’t want to root for inflation, but if it comes back with the huge government spending, then interest rates will rise quickly. I want us to take advantage of that.

Here’s what we will do: We are going to invest in a so-called inverse fund, or “bear” fund. Funds are simply pools of money invested in an array of securities. In this case, a fund of U.S. Treasury bonds. When the price of the bond goes up, the value of the fund’s shares rises. But bond prices and yields move in opposite directions, so to take advantage of rising rates we need to buy what’s called an “inverse fund.”

An inverse fund is a fund that uses a variety of financial tools to move in the opposite direction of some other security or index.

In our case, we want to make money when yields on bonds rise (and bond prices fall). To do that, **I recommend you buy the UltraShort Lehman 20+ Trsy ProShares (NYSE: TBT).** The fund seeks returns that correspond to twice the inverse of the Lehman Brothers 20+ Year U.S. Treasury index.

Our fund TBT makes money at about twice the rate the bonds lose money in the Lehman index. **I recommend you add the TBT fund to your portfolio at less than \$46.** Our risk, of course, is if yields go even lower, we will lose money on this investment.

To lower our risk and generate income, we’ll sell call options, just like we did with our gold position. I know that many of you may be new to trading options and find the idea uncomfortable. So please look at the earlier section and be sure and read the other special report *How to Double Your Wealth*, for more ideas on how to use options to make money and lower your risks.

To review, selling a call option gives someone else the right to buy our shares at a specific price (called the “strike”). In exchange for that right, the buyer pays us a “premium” upfront. If the shares never trade for more than the specified strike price, we keep the premium and the shares. If the share price exceeds the

strike price on or before the agreed on expiration date, and we will sell the shares to the call buyer, we simply book the capital gains up to the strike price, but we still keep the premium.

Here's how it works with TBT...

Right now, I recommend selling the **TBT September 2009 \$47 calls (TBTIW)** for \$3.20 each. That \$3.20 premium lowers the total cost of the trade to \$42.80 (\$46 for the shares minus the \$3.20 we receive in premium). Remember, each option trades in lots of 100 shares, so you have to be prepared to buy at least 100 shares of TBT (so at a minimum, you're spending \$4,600 on the shares and receiving \$320 for the options contract). The "47" in the option name represents the strike price... the price at which we've agreed to sell our shares.

These options expire on September 18, 2009 (options always expire on the third Friday of the month named in the option – in this case, "September 2009"). We have several possible outcomes when the options expire:

1. If the stock trades between \$46 and \$47 a share, the options will expire worthless. We will keep the \$3.20 premium and the shares. We'll have made up to 10% on the trade. Here's how... Let's say the stock is at \$47 a share, we'd gain \$1 per share (\$47 minus our initial cost of \$46). That represents a maximum gain of 10% (the \$3.20 + the \$1 divided by the \$42.50). And because we still own the stock, we can write more calls and repeat the process indefinitely.
2. If the stock trades for more than \$47 at expiration, we'll have to sell our shares – they'll be "called away." Regardless of how much the shares are worth, we've agreed to sell them at \$47. So our gain remains 10% in four months. This is an excellent way to play inflation and rising interest rates (bond yields) but also hedge ourselves on the downside in case yields go lower.

The only way to lose money on the trade is if the shares fall to less than \$42.80 on September 18 (which would be a 7% fall from current prices). But even in that case, we'd still own the shares and could sell more calls again to bring in more income again.

So long as TBT is trading above \$42.80 on option-expiration day in September, you'll make money on this trade. Here's what you need to tell your broker or enter online:

Buy the UltraShort Lehman 20+ Trsy ProShares (NYSE: TBT) and sell the TBT September 2009 \$47 calls (TBTIW) for net investment of \$42.80.

Opportunities Will Keep Coming

I hope you've enjoyed reading this report. I've presented two strategies to take profit off the problems the U.S. Treasury created in the investment markets this past year. They both take advantage of the coming inflation and confusion caused by the banking leaders and their cronies in government. They have set fire to the money supply, and the exploding money supply by definition brings inflation. And there is little doubt this will create even more volatile markets for stocks and bonds over the next two years. But we'll be ready for it.

I doubt the market chaos will be horrifying or that inflation will be as high as the 1980s, but rates will go higher as America and the rest of the world recover. Buying gold and selling U.S. Treasuries,

PLUS getting income to do it, are unique ways to take advantage of current economic relationships. Better yet, if things stay the same we make 13%-18% over the next year; and even more if we repeat the trades later in 2009.

I warned you earlier, but I'll say it again: The techniques I use in this report are a bit complicated for new investors, but don't worry. I will uncover easier opportunities as well. These are just one way to help you manage your retirement portfolio. But please, don't rush out and do anything you don't understand, especially involving options.

Again, welcome to *Retirement Millionaire*. Rest assured, I will search for simple and common sense ideas in the coming months.

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